CANADA MORTGAGE AND HOUSING CORPORATION

# HOUSING MARKET OUTLOOK

## Windsor

Date Released: Fall 2006

## New Home Market

### Starts Weakening

In 2007, single-detached starts will drop a modest two per cent to 695 units. This comes on the tail of a 36 per cent decline in 2006. Single-detached construction in the Windsor census metropolitan area (CMA) continues to retreat from the cyclical peak reached in 2002 . The decline is a result of slower immigration, lower consumer confidence and more choice in the Windsor resale market.

The average new single-detached home price is forecast to increase six per cent in 2006 to $250,000. The average price of a new single-detached home was just under $235,000 in 2005, an increase of 10 per cent from 2004. Factors which will pull prices up include rising material costs and higher development charges. The New House Price Index (NHPI) which has generally increased less than one per cent a year in Windsor,

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Figure 1

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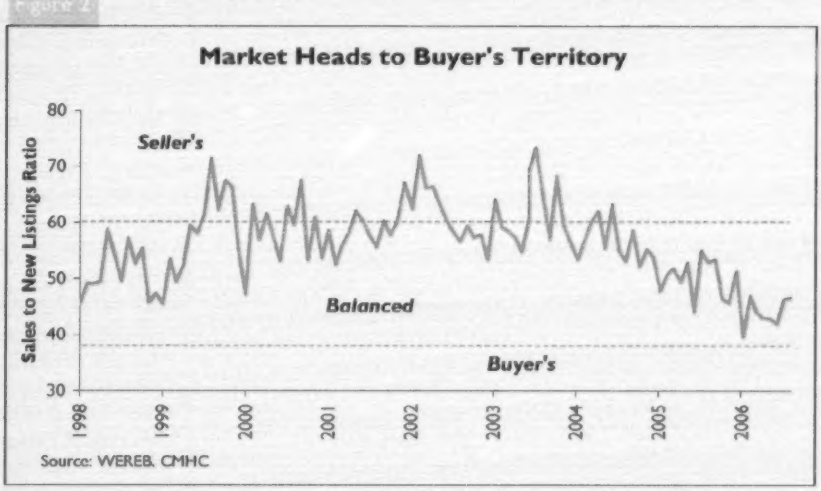
Figure 2




jumped three per cent in 2005. Moreover, the land only component increased seven per cent.

In 2006 the new home market will be dominated by move-up home buyers who have accumulated substantial equity. Higher end homes have been increasing market share and this trend will be carried into 2007. The supply of new homes priced under $175,000 continues to shrink. Single-detached homes in this price range represent less than seven per cent of starts in 2006 compared to 40 per cent in 2004.

Upscale condominium apartment and townhouse projects targeting empty nesters, along with an affordable rental development will contribute to 310 multiple family home starts in 2006. Multiple family home construction has been strong during the past several years. Empty-nesters have been the driving force behind this demand. Empty nesters account for 17 per cent of the total population in Windsor-Essex and their percentage is expected to grow as baby boomers age.

## Resale Market

### Pace of Sales Slows

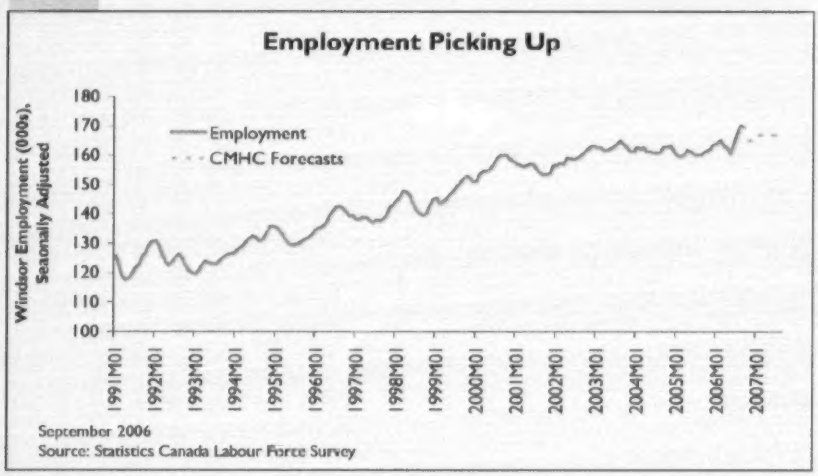
Despite a strong start to the year, the Windsor-Essex area will register 5,000 existing sales, down 11 per cent from 2005. As job concerns grow and lower levels of immigration begin to flow through, sales activity will drop a further five per cent in 2007 to its lowest level in five years.

Rising prices in the resale market have attracted numerous new listings from homeowners eager to cash in on capital gains. New listings will continue to grow, albeit at a slower rate, and take some of the pressure off of home prices.

Strong supply, coupled with lower sales, has kept the resale market in a balanced state. Neither the buyer nor the seller has had a negotiating advantage and price increases have been in line with inflation. However, by next year the market will move into a buyer's position. In a buyer's market homes stay on the market much longer and outright price declines are common. This suggests that the sales-to-new listings ratio, a leading indicator of future price growth will continue to fall and the average MLS sale price is forecast to reach $165,000 in 2006 before decreasing by one per cent in 2007.

Figure 3

Figure 4




# Economic Trends

## Employment to Grow in 2006

Trends in the labour market impact housing demand with a one to two year lag. According to the Manpower survey, hiring intentions in the area for the fourth quarter of 2006 are positive for the coming months. Employment in the CMA is forecast to edge higher by 2.3 per cent in 2006 and a further 1.2 per cent next year. This comes on the tail of two years when the local economy struggled with a higher Canadian dollar.

Non-residential construction has been one of the bright spots in the economy, with nearly three times the dollar amount spent on construction in the first three quarters of 2006 compared to the same period the year before. Major projects include the DaimlerChrysler paint shop, the renovations at Casino Windsor and an ethanol plant.

For 2006, the information, culture and recreational sector will be at risk following a 35 per cent decline in 2005. Threats to this sector include the high Canadian dollar, competition in Detroit from newer casinos and the smoking ban in workplaces and public spaces which has impact the visits to Casino Windsor. This has resulted in over 300 temporary layoffs. Cross- border traffic will also be negatively affected by these factors as well as on going delays at the border due to security concerns and traffic congestion.

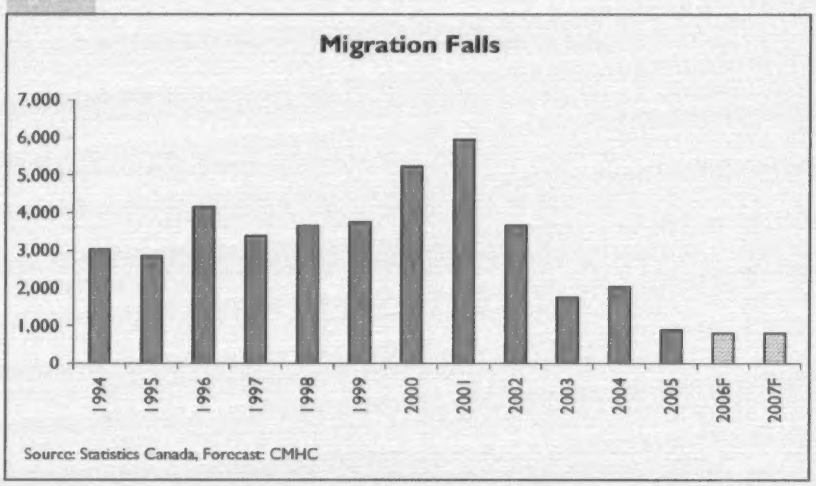
## Consumer Confidence Weaker

While most Canadians were more optimistic about their financial future. Ontario consumer confidence fell in the third quarter. Cuts to auto production and significant drops in cross-border visits have dampened local consumer confidence, impacting households decisions to move up. Locally, consumer confidence has also been challenged by layoffs and closures in the auto sector.

## Migration Drops

Strong levels of immigration between 2000-2003 period to the Windsor CMA triggered demand for new and resale housing a few years later. For the 2006 and 2007 years, demand for housing will be reduced due to the lower levels of migration in 2004-2006 as the draw to Windsor based on employment prospects is not as strong as other areas.

Figure 5



## Mortgage Rates Have Peaked

A combination of a slowing economy, strong Canadian dollar vis-à-vis the U.S. dollar, and moderate inflation will help keep Canadian interest and mortgage rates low over the remainder of this year and in 2007.

Mortgage rates rose by 1.0-1.5 percentage point between September 2005 and September 2006. Mortgage rates are expected to remain low, easing by 25-75 basis points over the next two-three quarters before starting to climb higher. One, three and five-year posted mortgage rates are forecast to be in the 5.50-6.50, 5.75-6.75, and 6.00-7.00 per cent ranges respectively over the rest of this year and in 2007.

| Windsor Census Metropolitan Area | | | | | | |
|---|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006(f) | 2007(f) | %Change |
| **RESALE MARKET** | | | | | | |
| MLS* Sales | 5,300 | 5,832 | 5,661 | 5,050 | 4,800 | -5.0% |
| MLS Average Price | 152,000 | 159,597 | 163,000 | 164,000 | 162,400 | -1.0% |
| MLS New Listings Oct | 763 | 914 | 1,044 | 1,095 | 1,050 | -4.3% |
| Sales-to-New Listings Ratio | 0.609 | 0.469 | 0.44 | 0.39 | 0.38 | |
| **NEW HOME MARKET** | | | | | | |
| Single-detached starts | 1,632 | 1,539 | 1,110 | 710 | 695 | -2.1% |
| Semi-detached starts | 213 | 194 | 96 | 50 | 40 | -20.0% |
| Row/Apt Ownership starts | 331 | 427 | 380 | 280 | 200 | -28.6% |
| Apt Rental/Life-lease starts | 61 | 127 | 160 | 30 | 40 | 33.0% |
| Total Starts | 2,237 | 2,287 | 1,496 | 1,070 | 975 | -8.9% |
| Average New Home Price | $206,000 | $213,469 | $234,959 | $250,000 | $255,000 | 2.0% |
| **RENTAL MARKET** | | | | | | |
| Apartment Vacancy Rate | 4.3 | 8.8 | 10.3 | 9 | | |
| Average 2 Bedroom Rent | 776 | 776 | 780 | 775 | | -0.6% |
| **ECONOMIC ASSUMPTIONS** | | | | | | |
| Mortgage Rate (1-Year Term, %) | 4.84 | 4.59 | 5.06 | 6.27 | 5.50-6.50 | |
| Mortgage Rate (5-Year Term, %) | 6.39 | 6.23 | 5.99 | 6.67 | 6.00-7.00 | |
| Employment (000's) | 163 | 161.9 | 161.3 | 165 | 167 | 1.2% |
| Net Migration | 1,771 | 2,039 | 897 | 800 | 800 | |

*Multiple Listing Service, (MLS) is a registered certification mark owned by the Canadian Real Estate Association.
Source: Windsor-Essex County Real Estate Board, HRDC, Bank of Canada, CMHC

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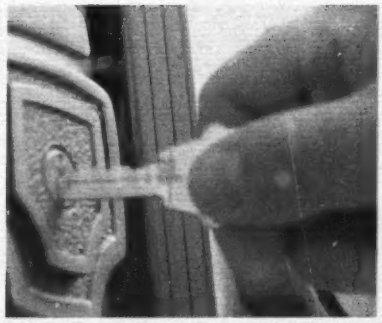

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